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STATE OF MONTANA
Report to the Legislature

OFFICE OF THE COMMISSIONER
OF HIGHER EDUCATION
AND

BOARD OF REGENTS OF HIGHER EDUCATION

Report on the Examination of Financial Statements
Fiscal Years Ended June 30, 1980 and 1981



OFFICE OF THE LEGISLATIVE AUDITOR

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		<u>Term Expires</u>
Ted Schwinden, Governor*		1984
Ed Argenbright, Superintendent of Public Instruction*		1984
Ted James, Chairman	Great Falls	1986
Mary Pace, Vice Chairman	Bozeman	1985
Lewy Evans, Jr.	Billings	1983
Darla Keck, Student Regent	Havre	1983
Elsie Redlin	Lambert	1984
Jeffrey Morrison	Helena	1987
Robert Knight	Missoula	1989

*Ex officio members

ADMINISTRATIVE OFFICIALS

Irving E. Dayton	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Office of the Commissioner of Higher Education and the Department of Administration are included in the back of this report.

	<u>Page</u>
1A The Board of Regents discontinue approving budget amendments for funds available for consideration by the legislature.	4
<u>Commissioner of Higher Education Response:</u> Partially concur. See page 29.	
1B The Board of Regents approve University System budget amendments in accordance with the legislative appropriation act, or seek legislation allowing the delegation of approving authority.	5
<u>Commissioner of Higher Education Response:</u> Partially concur. See page 30.	
2 The Office of the Commissioner of Higher Education record revenue on the Statewide Budgeting and Accounting System in accordance with generally accepted accounting principles and state accounting policy.	6
<u>Commissioner of Higher Education Response:</u> Concur. See page 31.	
3 The Office of the Commissioner of Higher Education grant compensatory time only to qualified employees as defined in state law and the Montana Operations Manual.	7
<u>Commissioner of Higher Education Response:</u> Concur. See page 31.	
4 The Office of the Commissioner of Higher Education comply with federal regulations in recovering indirect costs of federal programs.	9
<u>Commissioner of Higher Education Response:</u> Concur. See page 31.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
5 The Office of the Commissioner of Higher Education comply with reporting requirements of federal projects.	9
<u>Commissioner of Higher Education Response:</u> Concur. See page 32.	
6 The Department of Administration establish a General Long-Term Debt group of accounts within the Statewide Budgeting and Accounting System.	10
<u>Department of Administration Response:</u> Concur. See page 33.	
<u>Commissioner of Higher Education Reponse:</u> Concur. See page 32.	

COMMENTS

GENERAL

We performed a financial compliance audit of the Office of the Commissioner of Higher Education (CHE) and the Board of Regents of Higher Education for fiscal years 1979-80 and 1980-81. The objectives of the audit were to: (1) determine if the office's and board's financial statements present fairly their financial positions on June 30, 1981 and the results of operations for the two fiscal years then ended; (2) determine if the office and board complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the office.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

BACKGROUND

Board of Regents

Article X of the Montana Constitution establishes the Board of Regents of Higher Education to govern and control the Montana University System. The board is also vested with the general supervision of community colleges.

The Board of Regents consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and the State Superintendent of Public Instruction are ex officio members of the board. A list of board members is presented on page iii of this report.

Commissioner of Higher Education

Article X of the Montana Constitution requires the Board of Regents to appoint a Commissioner of Higher Education and prescribe the term and duties of the office.

The Commissioner's responsibilities include:

1. Academic planning and curriculum review;
2. Budgetary planning and control;
3. Providing legal services to campuses;
4. Facilities planning;
5. Establishing labor negotiation policies and procedures;
and
6. Administering student aid programs.

The Office of the Commissioner of Higher Education serves as the certifying agency for Montana's involvement in the Western Interstate Commission for Higher Education's (WICHE) Professional Student Exchange Program. The office is also the designated agency to administer the Federal Commission on Post-secondary Education grant used to promote higher education in Montana.

PRIOR AUDIT RECOMMENDATIONS

Our previous audit report for the Office of the Commissioner and the Board of Regents of Higher Education was issued for the fiscal year ended June 30, 1979. Of the twelve recommendations still applicable to the office's operations, eight have been implemented or partially implemented and four have not been implemented. The applicable recommendations that have not been implemented are discussed in appropriate sections of this report.

APPROPRIATIONS

Board of Regents Travel

House Bill 483 of the 46th Legislature stated it was the intent of the legislature to provide only one out-of-state trip, except in extraordinary circumstances, for one regent member during each fiscal year of the 81 biennium.

Two regent members traveled out of state in fiscal year 1979-80. Three regent members traveled out of state in fiscal year 1980-81.

Approving Authority

During fiscal years 1979-80 and 1980-81, the Board of Regents of Higher Education delegated the approving authority for certain categories of budget amendments to the Office of the Commissioner of Higher Education and the Chairman of the Board of Regents.

House Bill 483, passed by the 46th Legislature, states that the budget and operational plan amendments must be approved by the appropriate approving authority. For the purposes of that act, "approving authority means the governor or his designated representative, for executive branch agencies; the chief justice of the supreme court for judicial branch agencies; appropriate legislative committees for legislative branch agencies; or the board of regents for the university system." Although the act specifically states that the Governor may delegate his authority, it does not allow the Board of Regents to delegate its authority.

The University System processes hundreds of budget amendments during each fiscal year. The large number of amendments,

especially those submitted near fiscal year end, may make it impractical for the Board of Regents to approve all amendments on a timely basis. The board should comply with the legislative appropriation act or seek legislation allowing the delegation of approving authority for certain categories of budget amendments.

The Board of Regents approved budget amendments establishing spending authority for the Title I Community Services Program in fiscal years 1979-80 and 1980-81. Funding of the Title I community service was available for consideration by the 46th Legislature. House Bill 483, passed by the 46th Legislature, restricts budget amendments to "funds that were not available for consideration by the Legislature."

The Commissioner of Higher Education stated that he believes the Board of Regents had the authority to approve a budget amendment for these funds because section 20-2-403, MCA, provides for a commission on federal higher education programs to administer the Title I Community Service Program. This commission is allocated to the Board of Regents of Higher Education for administrative purposes.

However, since funding of the Title I Community Service Program was available for consideration by the 46th Legislature, the Board of Regents exceeded its authority by approving a budget amendment Title I programs.

RECOMMENDATION #1

- A. WE RECOMMEND THAT THE BOARD OF REGENTS DISCONTINUE APPROVING BUDGET AMENDMENTS FOR FUNDS AVAILABLE FOR CONSIDERATION BY THE LEGISLATURE.

B. WE RECOMMEND THE BOARD OF REGENTS APPROVE UNIVERSITY SYSTEM BUDGET AMENDMENTS IN ACCORDANCE WITH THE LEGISLATIVE APPROPRIATION ACT, OR SEEK LEGISLATION ALLOWING THE DELEGATION OF APPROVING AUTHORITY.

REVENUE RECOGNITION

Revenue Accrued and Deferred

Although the financial statements have been adjusted to properly accrue and defer revenue, revenue was not properly recognized on the Statewide Budgeting and Accounting System. Generally accepted accounting principles and state accounting policy require use of the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues must be accrued when they are both measurable and available to finance expenditures of the fiscal period. When expenditures relating to cost reimbursable grants have been made, but the reimbursement has not been received, the expected reimbursement revenue should be accrued. CHE had \$10,671 and \$3,595 of unreimbursed grant expenditures at fiscal year-end 1979-80 and 1980-81, respectively. Revenue accruals were not recorded on SBAS for the above amounts.

When federal grant funds are received in advance of anticipated expenditures, the modified accrual basis of accounting requires the deferral of cost reimbursements considered unearned at fiscal year-end. Cost reimbursements are "unearned" in the amount that advances exceed reimbursable expenditures. CHE had unearned

grant receipts of \$150,121 and \$204,173 at fiscal year-ends 1979-80 and 1980-81, respectively, for which the revenue was not deferred on SBAS.

SSIG Private Match

The Office of the Commissioner of Higher Education allows privately owned colleges to participate in the State Student Incentive Grant (SSIG) program. Private colleges must provide the matching funds for federal funds received. CHE requires the private colleges to send matching funds to the Commissioner's Office. When received, the funds are deposited in the state treasury. A transfer warrant claim is then processed distributing the SSIG funds (federal and matching) to the college.

CHE records the private matching funds as revenue when received and expenditures when disbursed. Private matching funds are neither available nor disbursed for state operations and, therefore, should not be recorded as revenue and expenditures. Revenue and expenditures for the SSIG program were overstated by \$35,553 in fiscal year 1979-80 and \$26,300 in fiscal year 1980-81 due to the recording of private match.

The financial statements have been adjusted to properly present SSIG revenues and expenditures.

RECOMMENDATION #2

WE RECOMMEND THAT THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION RECORD REVENUE ON THE STATE-WIDE BUDGETING AND ACCOUNTING SYSTEM IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE ACCOUNTING POLICY.

PAYROLL

Compensatory Time

To comply with the Montana minimum wage law, the Office of the Commissioner of Higher Education should pay for overtime worked by non-exempt employees.

The Montana minimum wage law (39-3-405, MCA) requires that non-exempt employees receive compensation for employment in excess of 40 hours in a work week at a rate of not less than 1½ times the hourly wage rate at which they are employed. Montana Operations Manual 3-0210 defines a non-exempt employee as:

"an employee in a position not classified as executive, administrative, or professional. . ."

We noted three non-exempt clerical employees earning compensatory time for time worked in excess of 40 hours per work week.

RECOMMENDATION #3

WE RECOMMEND THAT THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION GRANT COMPENSATORY TIME ONLY TO QUALIFIED EMPLOYEES AS DEFINED IN STATE LAW AND THE MONTANA OPERATIONS MANUAL.

FEDERAL GRANT COMPLIANCE

Our audit of federal moneys was performed in accordance with requirements of the U.S. Office of Management and Budget, (OMB), Circular A-102, Attachment P. This circular provides for audits of financial operations, including compliance with certain provisions of federal laws and regulations.

The Office of the Commissioner of Higher Education (CHE) received funds from the U.S. Department of Education during our audit period. The CHE was also a subgrantee receiving federal funds from the Montana Department of Labor and Industry.

Nothing came to our attention that causes us to believe untested items are not in compliance with applicable laws and regulations.

Indirect Cost Reimbursement

During fiscal years 1979-80 and 1980-81, the Office of the Commissioner of Higher Education allocated \$9,165 of rent, utility, and janitorial service expenditures to federal programs without an approved cost allocation plan. Federal regulations require that the allocation of joint costs (those costs which benefit more than one program) be supported by an approved cost allocation plan. We question the allowability of allocated joint costs since they are not supported by an approved allocation plan.

During fiscal year 1980-81, the Office of the Commissioner of Higher Education was reimbursed for \$4,093 of indirect costs for the Talent Search program. The costs recorded as indirect costs were readily assignable to the Talent Search program and do not qualify as indirect costs.

Federal regulations define indirect costs as "costs: a) incurred for a common or joint purpose benefitting more than one cost objective; and b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved." Because direct costs were recorded as indirect costs, we question the allowability of indirect costs recorded for the Talent Search program.

RECOMMENDATION #4

WE RECOMMEND THAT THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION COMPLY WITH FEDERAL REGULATIONS IN RECOVERING INDIRECT COSTS OF FEDERAL PROGRAMS.

Annual Report

The Office of the Commissioner of Higher Education (CHE) did not submit the annual report for the fiscal year 1980 Title I, Community Services Program within the 90 days as required by federal regulations. The Community Services annual report is compiled from annual project reports submitted to CHE by University System units. Late submission of subgrantee annual reports caused the federal deadline to be missed.

The Office of the Commissioner of Higher Education should establish procedures to ensure federal reports are submitted on a timely basis. If federal deadlines cannot be met, CHE should obtain an extension of the deadline from the federal government.

RECOMMENDATION #5

WE RECOMMEND THAT THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION COMPLY WITH REPORTING REQUIREMENTS OF FEDERAL PROJECTS.

INSTALLMENT PURCHASE AGREEMENTS

The Department of Administration has not established a General Long-Term Debt group of accounts within the Statewide Budgeting and Accounting System (SBAS) to allow agencies to properly record

long-term obligations of governmental fund types. Therefore, liabilities recorded on SBAS for the Office of the Commissioner of Higher Education do not include unpaid obligations of installment purchase contracts for office equipment.

Generally accepted accounting principles (GAAP) require recording a liability for the unpaid obligation of installment purchase agreement. The portion of the liability for purchase contract obligations for governmental funds that is long-term (not due in the current fiscal year) must be recorded in a General Long-Term Debt Account. Although the Office of the Commissioner of Higher Education adjusted the financial statements to properly present a \$9,983 liability for the remaining obligation of installment purchase agreements, it could not record the obligation on SBAS.

RECOMMENDATION #6

WE RECOMMEND THAT THE DEPARTMENT OF ADMINISTRATION ESTABLISH A GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS WITHIN THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM.

STUDENT LOAN FUND

Chapter 691, Laws of 1979, establishes a Guaranteed Student Loan (GSL) revolving account within the University Student Loan Fund. The University Student Loan Fund is a part of the university fund structure.

Use of university funds is not in accordance with generally accepted accounting principles for state agency financial reporting.

The guaranteed student loan program administered by the Commissioner's office should be accounted for in a Special Revenue Fund.

The Department of Administration is currently revising the Montana treasury fund structure to comply with generally accepted accounting principles. The financial statements have been adjusted to properly present the guaranteed student loan program in its Special Revenue Fund.

FEDERAL AND PRIVATE GRANT CLEARANCE FUND

Fund Balance

At fiscal year-end 1981, the federal and private grant clearance account (FPGCA) at the Office of the Commissioner of Higher Education had a \$9,833 cash balance belonging to the state General Fund.

The cash balance resulted from an accounting error during fiscal year 1978-79. Disbursements of \$9,833 of private matching funds were disbursed from the General Fund instead of the FPGCA. The cash balance was returned to the state General Fund in fiscal year 1981-82.

The financial statements have been adjusted to properly disclose the liabilities to the state General Fund at June 30, 1981.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the office's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and examination would not necessarily disclose all weaknesses in the system because it was based upon selective tests of accounting records and related data. We found no material internal control weaknesses.

The preceding three paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

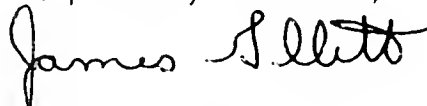
We have examined the Combined Balance Sheet of the General and Special Revenue Funds and the General Fixed Assets and General Long-Term Debt account groups of the Office of the Commissioner of Higher Education and the Board of Regents of Higher Education as of June 30, 1981, and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual of such funds for the fiscal years ended June 30, 1980, and June 30, 1981. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial positions of the Office of the Commissioner of Higher Education and the Board of Regents of Higher Education at June 30, 1981, and the results of operations for the two fiscal years ended June 30, 1981, in conformity with generally accepted accounting principles which, except for the change, with which we

concur, in the combination of funds as described in Note 1 to the financial statements, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Grant Receipts and Disbursements presented on page 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



James H. Gillett, CPA
Principal Audit Manager
Financial/Compliance and Contract Audits

October 30, 1981

Approved by:



Robert R. Ringwood
Legislative Auditor

COMMISSIONER OF HIGHER EDUCATION
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1981

	<u>GOVERNMENTAL FUND TYPES</u>		<u>ACCOUNT GROUPS</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
ASSETS:				
Cash	\$ 35	\$333,158		
Accounts Receivable	4,689	54,424		
Due From Other Funds	9,833			
General Fund Spending Authority to Pay Accrued Obligations	30,907			
Investments (STIP - Principle)		257,580		
Fixed Assets			\$76,634	
Amount to be Provided for Retirement of Installment Purchase Agreements				\$9,056
TOTAL ASSETS	<u>\$45,464</u>	<u>\$645,162</u>	<u>\$76,634</u>	<u>\$9,056</u>
LIABILITIES:				
Accounts Payable	\$26,722	\$ 44,550		
Accrued Expenditures	4,185	24,329		
Receipts Collected in Advance		465,050		
Due to Other Funds		9,833		
Due to Consolidated Entity	14,557			
Due to Federal Government		50,000		
Purchase Contracts Payable				\$9,056
Total Liabilities	<u>45,464</u>	<u>593,762</u>	<u>\$ -0-</u>	<u>9,056</u>
FUND EQUITY:				
Investment in General Fixed Assets			76,634	
Fund Balance		51,400		
Total Fund Equity	<u>-0-</u>	<u>51,400</u>	<u>76,634</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$45,464</u>	<u>\$645,162</u>	<u>\$76,634</u>	<u>\$9,056</u>

See accompanying notes to the financial statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	GOVERNMENTAL FUND TYPES					
	General Fund			Special Revenue Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Federal Grant Revenue				\$ 750,675	\$ 631,709	\$ (118,966)
Private Grant Revenue				86,959	57,244	(29,715)
Guaranteed Student Loan Program						
Guarantee Fees					38,951	38,951
Administrative Cost Allocation					76,986	76,986
Interest Income					12,449	12,449
TOTAL REVENUES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>837,634</u>	<u>817,339</u>	<u>(20,295)</u>
EXPENDITURES:						
Office Administration	\$ 567,385	\$ 567,129	\$ 256			
State Student Incentive Grants	150,297	150,297		399,703	176,608	223,095
WICHE	886,592	886,582	10	641,918	621,303	20,615
National Direct Student Loan	100,000	86,516	13,484			
WAMI	1,351,114	1,335,625	15,489			
Minnesota Dentistry	161,290	154,500	6,790			
Student Assistance Training				2,126	2,126	
1203 Comprehensive Planning				55,015	30,705	24,310
Montana Learning Service				71,599	69,596	2,003
Community Services				309,850	124,761	185,089
Guaranteed Student Loan				44,000	76,986	(32,986)
Talent Search				96,124	72,109	24,015
Ford Foundation				4,340	3,902	438
Faculty Vitality				86,591	53,342	33,249
MUAPS					155,804	(155,804)
TOTAL EXPENDITURES	<u>3,216,678</u>	<u>3,180,649</u>	<u>36,029</u>	<u>1,711,266</u>	<u>1,387,242</u>	<u>324,024</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,216,678)	(3,180,649)	36,029	(873,632)	(569,903)	303,729
OTHER FINANCING SOURCES (USES):						
Support From Consolidated Entity	3,217,274	3,181,245	(36,029)	641,918	621,303	(20,615)
Prior Year Adjustments	(596)	(596)				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES				(231,714)	51,400	283,114
FUND BALANCE JULY 1, 1980	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCE JUNE 30, 1981	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (231,714)</u>	<u>\$ 51,400</u>	<u>\$ 283,114</u>

See accompanying Notes to the Financial Statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ALL FUND TYPES
FISCAL YEAR ENDED JUNE 30, 1980

	GOVERNMENTAL FUND TYPES					
	General Fund			Special Revenue Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Federal Grant Revenue				\$696,950	\$534,841	\$(162,019)
Private Grant Revenue				6,647	22,714	16,067
Total Revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>703,597</u>	<u>557,555</u>	<u>(146,042)</u>
EXPENDITURES:						
Office Administration	\$ 534,787	\$ 533,368	\$ 1,419			
Facilities Planning				2,225	2,225	
State Student Incentive Grants	150,297	150,297		204,806	187,116	17,690
WICHE	817,582	817,582		641,918	632,174	9,744
National Direct Student Loans	100,000	82,237	17,763			
WAMI	1,268,866	1,233,158	35,708			
Minnesota Dentistry	164,900	164,900				
Student Assistance Training				2,064	2,064	
1203 Comprehensive Planning				34,874	21,759	13,115
Montana Learning Service				60,199	56,321	3,878
Community Services				213,659	95,097	118,562
Ford Foundation				27,053	22,714	4,339
MUAPS				87,316	170,259	(82,943)
Total Expenditures	<u>3,036,432</u>	<u>2,981,542</u>	<u>54,890</u>	<u>1,274,114</u>	<u>1,189,729</u>	<u>84,385</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(3,036,432)	(2,981,542)	54,890	(570,517)	(632,174)	(61,657)
OTHER FINANCING SOURCES (USES):						
Support from Consolidated Entity	3,034,316	2,979,426	(54,890)	641,918	632,174	(9,744)
Prior Year Adjustments	<u>2,116</u>	<u>2,116</u>				
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES				71,401	-0-	(71,401)
FUND BALANCE JULY 1, 1979				123,155	123,155	-0-
Adjustment to Beginning Fund Balance				(123,155)	(123,155)	
FUND BALANCE JUNE 30, 1980	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 71,401</u>	<u>\$ -0-</u>	<u>\$ (71,401)</u>

See accompanying Notes to the Financial Statements.

BOARD OF REGENTS
COMBINED BALANCE SHEET
ALL FUND TYPES
JUNE 30, 1981

	<u>GOVERNMENTAL FUND TYPES</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>ASSETS</u>		
Accounts Receivable	\$ 250	\$787,126
Spending Authority Available to Pay Accrued Obligations	<u>1,513</u>	<u>-0-</u>
TOTAL ASSETS	<u>\$1,763</u>	<u>\$787,126</u>
 <u>LIABILITIES</u>		
Accounts Payable	\$1,348	\$ -0-
Accrued Expenditures	165	-0-
Inter-Entity Loan Payable	-0-	387,970
Due to Consolidated Entity	<u>250</u>	<u></u>
TOTAL LIABILITIES	<u>1,763</u>	<u>387,970</u>
 <u>FUND EQUITY</u>		
Fund Balance	<u>-0-</u>	<u>399,156</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$1,763</u>	<u>\$787,126</u>

See accompanying Notes to the Financial Statements.

BOARD OF REGENTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ALL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	GOVERNMENTAL FUND TYPES					
	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Coal Tax Interest Income	\$ -0-	\$ -0-	\$ -0-	\$350,000	\$787,126	\$437,126
Total Revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>350,000</u>	<u>787,126</u>	<u>437,126</u>
EXPENDITURES:						
Regent Travel and Per Diem	20,225	19,751	474	-0-	-0-	-0-
Total Expenditures	<u>20,225</u>	<u>19,751</u>	<u>474</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(20,225)	(19,751)	474	350,000	787,126	437,126
OTHER FINANCING SOURCES (USES):						
Support from General Fund	20,115	19,641	(474)	-0-	-0-	-0-
Support to Consolidated Entity				(641,918)	(621,303)	20,615
Prior Year Adjustment	<u>110</u>	<u>110</u>				
EXCESS REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(291,918)	165,823	457,741
FUND BALANCE - JULY 1, 1980	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>233,333</u>	<u>233,333</u>	<u>-0-</u>
FUND BALANCE - JUNE 30, 1981	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(58,585)</u>	<u>\$399,156</u>	<u>\$457,741</u>

See accompanying Notes to the Financial Statements.

BOARD OF REGENTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ALL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	GOVERNMENTAL FUND TYPES					
	GENERAL FUND			SPECIAL REVENUE FUND		
	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
REVENUES:						
Coal Tax Interest Income	\$ -0-	\$ -0-	\$ -0-	\$394,739	\$390,886	\$ (3,853)
Total Revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>394,739</u>	<u>390,886</u>	<u>(3,853)</u>
EXPENDITURES:						
Regent Travel and Per Diem	20,127	18,714	1,413	-0-	-0-	-0-
Total Expenditures	<u>20,127</u>	<u>18,714</u>	<u>1,413</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(20,127)	(18,714)	(1,413)	394,739	390,886	(3,853)
OTHER FINANCING SOURCES (USES):						
Support from General Fund	20,785	19,372	1,413	-0-	-0-	-0-
Support to Consolidated Entity				(641,918)	(632,174)	9,744
Prior Year Adjustment	<u>(658)</u>	<u>(658)</u>				
EXCESS REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(247,179)	(241,288)	5,891
FUND BALANCE - JULY 1, 1979	-0-	-0-	-0-	280,337	280,337	
Adjustment to Beginning Fund Balance				<u>194,284</u>	<u>194,284</u>	
FUND BALANCE - JUNE 30, 1980	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$227,442</u>	<u>\$233,333</u>	<u>\$ 5,891</u>

See accompanying Notes to the Financial Statements.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
AND BOARD OF REGENTS OF HIGHER EDUCATION

Notes to the Financial Statements

Fiscal Years Ended June 30, 1980 and 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Description of Funds

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and were adjusted to comply with generally accepted accounting principles for governmental organizations. The funds and account groups presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds with the earmarked revenue fund, federal and private revenue fund, federal and private grant clearance fund and university student loan fund within the state treasury fund structure.

General Fixed Asset Account Group - To account for furniture and equipment purchased by CHE. These funds correspond with amounts recorded in the Property Accountability and Management System (PAMS) within the Statewide Budgeting and Accounting System.

General Long-Term Debt Account Group - To account for obligations that extend beyond the current accounting period. The balance in this account group is the unpaid obligation (excluding interest) as installment purchase agreements. The General Long-Term Debt group of accounts is not included in the Statewide Budgeting and Accounting System.

b) Basis of Accounting

The preceding financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

c) Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1981 was immaterial.

d) General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of purchase. (Gifts are recorded in general fixed asset records at fair market value at the time received and assets purchased are recorded at cost.) General fixed assets are not depreciated.

e) Vacation and Sick Leave

Upon termination, qualified employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The liability

amount associated with unused accumulated vacation and sick leave at June 30, 1981 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. EMPLOYEES' RETIREMENT SYSTEM

The Commissioner's Office employees are covered by the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Under these plans, the state contributes 6.2 percent and 6.312 percent of an employee's gross wages to PERS and TRS, respectively. The employee contributes 6 percent and 6.187 percent of his gross wages for the two systems, respectively.

The state's policy is to fund accrued pension costs. Based on the most recent actuarial valuation report on June 30, 1981, the Teachers' Retirement System was actuarially sound. The Public Employees' Retirement System was actuarially sound at June 30, 1980.

3. LEASES

The Commissioner's Office made payments of \$60,390 and \$60,720 for leased facilities in fiscal years 1979-80 and 1980-81, respectively. Lease rentals are recorded as expenditures over the lease term as payments are made.

Commitments under the lease agreement for facilities, classified as an operating lease, provide for the following minimum lease payments:

1982	\$ 68,580
1983	68,580
1984	68,580
1985	68,580
1986	68,580
	<u>\$342,900</u>

4. INSTALLMENT PURCHASE AGREEMENTS

The Commissioner's Office is purchasing office equipment totaling \$28,480 under installment purchase agreements. At June 30, 1981, installment payments remaining totaled \$9,984, including \$9,056 in principal and \$928 in interest. Annual payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
1981-82	\$4,992
1982-83	2,496
1983-84	2,496
Total	<u>\$9,984</u>

5. GENERAL FUND BALANCE

The agency's general fund beginning and ending balance on a nonconsolidated basis is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

6. UNIVERSITY SYSTEM EXPENDITURES

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types does not include some expenditures that pass through the Office of the Commissioner of Higher Education. The following is a schedule of these expenditure amounts and their fiscal years:

<u>Expenditure Description</u>	<u>Fiscal Year '80</u>	<u>Fiscal Year '81</u>
General Fund	\$45,870,408	\$51,393,938
Millage	9,349,828	10,393,944
Community College	1,940,090	2,080,748
Other	130,000	130,000

The appropriation amounts are also recorded by the Commissioner's Office. These expenditures are reported in the university units' financial statements since the transactions related to the units' operations.

7. FUND BALANCE ADJUSTMENTS

For the fiscal year 1980 statements of the Commissioner of Higher Education, the Beginning Fund Balance of the Special Revenue Fund was adjusted downward by \$123,155. This was the net of \$115,850 of revenue that was recognized in prior years which should have been deferred, \$2,528 of revenue which should have been recognized in prior years but was not, plus \$9,833 resulting from an accounting error in fiscal year 1978-79.

For the fiscal year 1980 statements of the Board of Regents, the Beginning Fund Balance was adjusted upward by \$194,248 to recognize the coal tax revenue that should have been accrued during fiscal year 1979 but was not.

8. UNFAVORABLE VARIANCE

The unfavorable variances shown of \$82,943 in fiscal year 1980 and \$135,804 in fiscal year 1981 for the Montana University System Affiliated Program Satellite (MUAPS) and the \$162,019 in fiscal year 1981 for the Guaranteed Student Loan (GSL) program expenditures result from non-budgeted expenditures.

9. ACCOUNTS RECEIVABLE

Accounts receivable presented on the June 30, 1981 balance sheet for the Board of Regents of Higher Education represents coal tax interest income earned as of June 30, 1981 but not received from the Department of Commerce.

10. INTER-ENTITY LOAN

The inter-entity loan payable presented on the June 30, 1981 balance sheet for the Board of Regents of Higher Education is a loan from the state General Fund to allow for payment of fees for the Western Interstate Commission on Higher Education (WICHE) program. The inter-entity loan is repaid upon receipt of the coal tax interest distribution by the Board of Regents.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF FEDERAL GRANT RECEIPTS AND DISBURSEMENTS
FISCAL YEARS 1979-80 AND 1980-81

	Common Accounting Number	Fiscal Year 1980		Fiscal Year 1981	
		Receipts	Disbursements	Receipts	Disbursements
<u>U.S. Department of Education</u>					
Higher Education Facilities		\$ 1,449	\$ 2,225		
1203 Comp. Planning Funds		34,874	21,759		\$ 13,115
1203 Comp. Planning Funds	0E003048			\$ 34,620	17,590
SSIG 80	92003272	204,806	187,116	(17,690)	
SSIG 81	02003242			214,059	176,608
Student Assistance Training	2003274,76,78	2,064	2,064		
Student Assistance Training	2003244,46,50			2,126	2,126
EIC 80 Grant				37,999	41,740
EIC 79 Grant	0E003077	35,460	46,121	14,540	3,879
EIC 78 Grant		12,727	10,199		
Community Service 75 ¹					(2,867)
Community Service 77			(79)		(1,991)
Community Service 78			67,267		
Community Service 79			27,910		85,656
Community Service 80		49,683		29,808	39,105
Community Service 81				30,000	
MUAPS	81994970	161,725	170,259	155,294	155,294
Talent Search	E002995			80,000	71,989
Pilot Program				18,913	18,760
<u>U.S. Department of Labor</u>					
CETA				3,000	2,997
SOICC Funds				2,220	2,220
TOTAL		<u>\$502,788</u>	<u>\$534,841</u>	<u>\$604,889</u>	<u>\$626,221</u>

¹ Community services programs transferred to CHE from Montana State University.

This schedule is prepared recording receipts on the cash basis. Disbursements include expenditures and valid obligations incurred during the period. Because of the differences in accounting method, items on this schedule may not agree to amounts included in the financial statements.

AGENCY REPLIES



THE MONTANA UNIVERSITY SYSTEM

13 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602

(406) 449-3024

COMMISSIONER OF HIGHER EDUCATION

RECEIVED

JUN 11 1982

MONTANA LEGISLATIVE AUDITOR

June 3, 1982

Mr. Robert Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

This letter is in response to the audit of the Office of the Commissioner of Higher Education and the Board of Regents for fiscal year ending June 30, 1981. We concur with the recommendations made by your auditors and appreciate the informal suggestions that were provided during the course of the audit.

In regards to your specific recommendations, I submit the enclosed responses and comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "Irving E. Dayton".

Irving E. Dayton
Commissioner of Higher Education

IED/tt

Enclosure

Audit Recommendation #1

- A. We recommend that the Board of Regents discontinue approving budget amendments for funds available for consideration by the legislature.

Commissioner's Response

- 1) Partially concur

The Board of Regents and the Commissioner must not only consider the language of an appropriation act but also the language contained in the state statutes when determining compliance with the law and legislative intent. The problem with the audit report in regards to the budget amendments which were approved for Title I, Community Service Grants, is that the apparent intent of the appropriation act conflicts with the very specific language of the statutes in regards to these funds.

The conflict was discussed by the Regents in June of 1979 as to whether the program should be incorporated into the budget.

The rationale contained in the Regent budget amendment item explains the Board's reasons for continuing the program in the Commissioner's office.

Item 27-011-R0680 - "The operating budget of the Commissioner's office includes a federal grant for the administration of Title I of the Higher Education Act of 1965, Public Law 89-329 to provide federal funds to conduct community service and continuing education programs designed to assist in the solution of community problems.

"The legislature was aware of the program but intentionally failed to appropriate the funds to this office. The appropriation committee felt that the program should not be administered by this office. State law, however, is quite specific that the program is to be administered by this office.

"Section 2-15-1515 (5), provides that the Commissioner of Higher Education is the administrative officer of the (1202) Commission. Section 20-2-403 states the specific duties of the Commission.

"20-2-403. Duties. The commission shall:

"1) administer state plans under Title I of the Federal Higher Education Facilities Act of 1963, P.L. 88-204, as amended by P.L. 89-329;

"2) administer state plans under Title VI of the Federal Higher Education Act of 1965, P.L. 89-329;

"3) Administer state plans under Title I of the Federal Higher Education Act of 1965; and

"4) administer other state plans under federal funding and grant programs which may be assigned by the governor or the legislature except those pertaining to the duties of the superintendent of public instruction and the board of public education." (Emphasis supplied.)

Since the Commission must award grants to higher education institutions, it would be difficult for the program to be administered by an institution which was also receiving grant awards. The appearance of a conflict of interest would be obvious. The federal program was discontinued in 1981.

Audit Recommendation #1 (B)

- B. We recommend the Board of Regents approve University System budget amendments in accordance with the Legislative Appropriation Act, or seek legislation allowing the delegation of approving authority.

Commissioner's Response

- (1) Partially concur

We have no problem with seeking a clarification of the issue next session. However, we do not agree with the legal interpretation of the auditor.

We feel that the stated Regent policy is in compliance with state law for the following reasons:

- 1) The auditor's legal interpretation of the appropriation bill would create an impractical result. Consider:

A) The centralized SBAS accounting system for the Montana University System requires over 800 accounting entities and over 400 appropriations to account for "all funds." House Bills 483 and 500 address only a small portion of the accounts required to manage all of the funds under Regent jurisdiction. The Regents have retained budget amendment control of all state appropriated funds specifically appropriated in House Bill 500. The appropriation act appropriates all other funds "contingent upon approval by the Board of Regents by July 1 of each year of a comprehensive program budget containing a detail of revenues and expenditures and anticipated fund balance of current funds, loan funds, and endowment funds." As required by the appropriation act, the Board establishes expenditure limits for the vending machines, food services, motor pools, dormitories, bowling alleys, etc. When the actual expenditures exceed the estimated Regent budget, SBAS rejects all transactions (including payroll) until a budget amendment is processed. We probably average over one budget amendment for every working day in the year. The Regents would have to meet every week in order to accommodate the auditor's interpretation of the law. Since the legislature

only appropriated \$20,225 to the Regents, it would be impractical for the Regents to meet that often to approve budget amendments for all types of funds.

B) The Regents have also provided authority to the Commissioner to approve small adjustments required at year-end. In the absence of delegating this authority, the Regents would have to reside in Helena from June 25 to July 15 in order to make all the required adjustments that are necessary at year-end. That also would not be prudent or practical.

C) As stated in the auditor's introduction, the State Constitution provides that the Regents "appoint the Commissioner and prescribe the powers and duties of the office." Such duties include budgetary planning and control. It would not be unreasonable to conclude that the Regents have the legal discretion to assign a reasonable amount of budget amendment authority to the Commissioner as provided by state law in the constitution.

D) The budget amendment process currently in effect is a long-standing past practice.

Audit Recommendation #2

We recommend that the Office of the Commissioner of Higher Education record revenue on the Statewide Budgeting and Accounting System in accordance with generally accepted accounting principles and state accounting policy.

Commissioner's Response

1) Concur

Audit Recommendation #3

We recommend that the Office of the Commissioner of Higher Education grant compensatory time only to qualified employees as defined in state law and the Montana Operations Manual.

Commissioner's Response

1) Concur

All employees have been briefed regarding the requirements of the Montana minimum wage law. The instances of non-compliance cited by the auditor were isolated instances.

Audit Recommendation #4

We recommend that the Office of the Commissioner of Higher Education comply with federal regulations in recovering indirect costs of federal programs.

Commissioner's Response

1) Concur

The \$9,165 of rent, utility, and janitorial service expenditures were charged to the Community Services Program (Title I). Under the regulations of Title I of the Higher Education Act of 1965, costs of rent, utilities, and janitorial services are specifically mentioned as being eligible costs. Therefore, we consider them proper charges to the program.

The director of the Talent Search Program communicated with her grants officer in the Department of Education and specifically asked him what types of costs could properly be included as indirect costs. The \$4,093 was spent on items that he acknowledged as being proper indirect costs.

Audit Recommendation #5

We recommend that the Office of the Commissioner of Higher Education comply with reporting requirements of federal projects.

Commissioner's Response

1) Concur

The federal government has eliminated the Title I Community Service Program effective this fiscal year. Because the subgrantees do not submit all of the necessary information within the ninety day period, our federal reports have been late for the last fifteen years.

The Office of Education was made aware of the delay in the submission of the financial reports. Delays are relatively common with regard to this particular program. We will be late again this year, however, we will notify OE in writing so that the auditor will know that the federal office is aware of the problem and we will not appear to be violating federal regulations.

Audit Recommendation #6

We recommend that the Department of Administration establish a general long-term debt group of accounts within the Statewide Budgeting and Accounting System.

Commissioner's Response

1) Concur

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TED SCHWINDEN GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA, MONTANA 59620

May 28, 1982

RECEIVED

James H. Gillett, Principal Audit Manager
Legislative Auditor's Office
State Capitol
Helena, MT 59620

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Gillett:

In accordance with your request, we submit the following response to the recommendation included in the audit report for the Board of Regents and Office of the Commissioner of Higher Education:

RECOMMENDATION #6

WE RECOMMEND THAT THE DEPARTMENT OF ADMINISTRATION ESTABLISH A GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS WITHIN THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM.

Response:

The Long-Term Debt Account Group has existed within the Statewide Budgeting and Accounting System under the Department of Administration since July 1981. The Board of Regents and Office of Commissioner of Higher Education were made sub-agencies of the entity in March 1982.

Sincerely,

A handwritten signature in cursive script, reading "Morris Brusett".

Morris L. Brusett, Director

